

NEWPORT LEGACY ZURICH SWITZERLAND: **BREXIT, BAD DEBT AMONG TOP RISKS** **FACING EURO ZONE BANKS, ECB SAYS**

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FRANKFURT (Reuters) – Soured credit, cybercrime and Brexit are among the biggest risks facing euro zone banks in 2019, the European Central Bank said on Tuesday, as it set out its supervisory priorities for the year ahead.

The euro zone's growth has reduced overall economic uncertainty, but global risk factors from protectionism to a hard Brexit and emerging-market turmoil are growing and warrant closer monitoring, the central bank said. It keeps watch over 118 of the biggest euro zone banks.

“Compared to last year, there has been a substantial decrease in risks stemming from economic and fiscal conditions in the euro area, mostly due to a favourable

cyclical momentum,” the ECB said in a regular risk assessment exercise.

“At the same time, geopolitical uncertainties and risks of repricing in financial markets have increased. Advances in digitalisation exacerbate the risks related to banks’ legacy IT systems and cyberattacks.”

Other notable risks include a repricing in financial markets and the impact of record-low interest rates on bank profitability, it added.

With regard to Brexit, the ECB stressed that banks need to be ready for any outcome, since no agreement has been reached just months before Britain is due to exit the European Union.

“Banks’ preparedness for Brexit remains a high priority for ECB Banking Supervision,” the ECB said. “ECB Banking Supervision will further prepare to take over the direct supervision of a number of institutions that are newly identified as significant owing to the Brexit-induced relocation of activities.”

It added that it will continue to press banks to reduce their stock of non-performing loans after notable

progress this year and will also scrutinize lending practices to mitigate potential risks.

It will also conduct a targeted review of banks' internal models for calculating risk to reduce unwarranted deviation from its own expectation.

